

MARCH 19, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the consolidated financial condition and results of operations of Pure Energy Services Ltd. (the "Corporation") is dated, and has been prepared taking into consideration information available to March 19, 2008 and should be read in conjunction with the consolidated audited financial statements of the Corporation as at and for the years ended December 31, 2007 and 2006. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com. Unless otherwise indicated, references in this MD&A to "\$" or "Dollars" are to Canadian dollars.

Overview

The Corporation is an oilfield services company which currently conducts operations in the Western Canadian Sedimentary Basin ("**Canadian Operations**") and in the Rocky Mountain region of the United States ("**US Operations**") through its wholly-owned subsidiaries, Pure Energy Services (USA), Inc. ("**Pure USA**"), Ross Wireline Services (2005) Ltd. and Motorworks Drilling Solutions Inc. and its partnership, Pure Energy Services Partnership (the "**Partnership**"). References to the "Corporation" in this MD&A refer to the Corporation and its subsidiaries and the Partnership. The Corporation currently has two operating segments, the Completion Services segment and the Drilling Services segment, which carry on business through various operating divisions. The Completion Services segment carries on business in both Canada and the United States. The Canadian Completion Services segment conducts operations in the Western Canadian Sedimentary Basin ("**WCSB**") and is comprised of the Production Testing division, the Logging and Perforating division, the Multiline division and the Pressure Transient Analysis division (the "**Canadian Completion Services**"). The US Completion Services segment conducts operations in the Rocky Mountain region of the United States and is comprised of the Production Testing division, the Logging and Perforating division and the Fracturing division (the "**US Completion Services**"). The Drilling Services segment ("**Drilling Services**") conducts operations in the WCSB and is comprised of the Quintera Drilling division and the Motorworks Rentals division.

Readers are cautioned that this MD&A contains certain forward-looking information. Please see "Forward-Looking Information" for a discussion concerning the use of such information in this MD&A.

Selected Consolidated Financial Information

(\$ millions, except per share amounts)	Three Months ended		Year ended December 31,		
	December 31,		2007		
	2007	2006	2007	2006	2005
	(unaudited)	(unaudited)			
Revenue	\$ 31.0	\$ 34.9	\$ 125.1	\$135.4	\$ 100.5
EBITDA ⁽¹⁾	3.6	6.3	6.7	27.7	23.8
Net income (loss)	1.1	2.8	(3.5)	13.0	10.8
Earnings (loss) per share					
Basic	\$0.07	\$ 0.17	\$ (0.22)	\$ 0.84	\$ 0.99
Diluted	\$0.07	\$ 0.17	\$ (0.22)	\$ 0.81	\$ 0.97

(1) EBITDA does not have a standardized meaning prescribed by GAAP. Management believes that, in addition to net income, EBITDA is a useful supplemental measure. EBITDA is provided as a measure of operating performance without reference to financing decisions and income tax impacts, which are not controlled at the operating management level. Investors should be cautioned that EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of the Corporation's performance. The Corporation's method of calculating EBITDA may differ from that of other corporations and accordingly may not be comparable to measures used by other corporations. Please refer to the "Non-GAAP Disclosure" for the reconciliation to net income.



Digitized by the Internet Archive
in 2025 with funding from
University of Alberta Library

https://archive.org/details/Pure4723_2007

(\$ millions)	As at December 31,		
	2007	2006	2005
Total assets	\$ 193.3	\$ 192.6	\$ 123.1
Current liabilities	15.7	\$29.8	\$ 13.9
Long-term liabilities	47.5	25.7	33.7
Shareholders' equity	130.1	137.1	75.5
Total liabilities and shareholders' equity	\$193.3	\$192.6	\$ 123.1

Fourth Quarter Highlights

The Corporation's revenue for the quarter ended December 31, 2007 decreased 11% compared to the 2006 fourth quarter. EBITDA for the 2007 fourth quarter decreased 44% and net income decreased 62% as compared to the 2006 fourth quarter. Diluted earnings per share decreased by 127% compared to the 2006 fourth quarter.

The 2007 fourth quarter reflects negative financial results combined with many positive operating results that improve the outlook for the Corporation as a whole and the US Completion Services segment in particular. The negative financial results are largely attributable to: weak Canadian industry activity resulting in considerably lower Canadian Completion Services and Drilling Services financial results; the US Fracturing division's operating loss; the goodwill impairment of \$1.2 million; and a significant contingent loss relating to an overtime claim in US Completion Services. The Corporation recorded a \$1.8 million future income tax recovery relating to the Canadian government's substantively enacted corporate income tax rate reductions.

The positive operating results include: fracturing service contract and commitment awards that are expected to significantly increase the Fracturing division's equipment utilization; the execution of a revised sand supply agreement and receipt of US \$4.9 million relating to repayment of the note receivable and reimbursement of certain operating expenses; increased equipment utilization and solid financial results for the US Production Testing division; improved financial results in the US Logging & Perforating division; and a strong financial contribution by the CCS Specialty Logging group in a weak operating market.

WCSB activity levels experienced during the 2007 fourth quarter compared to the 2006 fourth quarter significantly decreased as evidenced by a 27% decline in the Canadian Association of Oilwell Drilling Contractor's ("CAODC") rig count⁽¹⁾. The weakened industry activity is largely attributable to low North American natural gas prices, the strengthened Canadian dollar, excess equipment capacity in the WCSB and unfavourable royalty changes announced by the Alberta government.

The outlook for the US Fracturing division significantly improved during the quarter with execution of the revised sand supply agreement and additional fracturing service contract and commitment awards. Management expects its fracturing sand supplier to complete the reconstruction of the sand processing facility and re-commence its sand production and deliveries during the 2008 second quarter. Increased sand supply coupled with increased fracturing activity is expected to result in improved financial results for the Fracturing division in the future.

The US Production Testing division continues to produce solid financial results. This division has increased its unit count and its equipment utilization resulting in a 41% increase in income before income taxes during the 2007 fourth quarter compared to the 2006 fourth quarter. Management is considering transferring additional production testing units from the Canadian division as a result of the continued solid operating and financial results produced by the US Production Testing division.

(1) Source – CAODC Weekly Western Canada Drilling Rig Count

The US Logging and Perforating division produced its best quarterly financial results during the 2007 fourth quarter. Equipment utilization significantly increased as a result of changes to key operating personnel combined with significant activity and revenue generated from a services agreement with a major independent oil and gas producer. The increased utilization and financial results have resulted in one wireline truck being transferred from Canada and the possibility of additional equipment transfers depending on additional customer commitments in the Rocky Mountain region and the near-term outlook for the WCSB market.

The strong financial results of the Canadian Completion Services Specialty Logging group are notable because the results were produced during a quarter of weak industry activity levels. The strong financial results are a testament to the technical capability of the Specialty Logging group and its recognition of market opportunities despite weak industry activity levels for conventional logging and perforating services.

Subsequent to year end, the Corporation's lender extended the Corporation's \$60 million extendible revolving term loan facility to June 30, 2009. This extension demonstrates the confidence the lender has in the Corporation's current and future financial position.

2007 Highlights

The Corporation's 2007 revenue decreased 8% compared to 2006 revenue. EBITDA decreased 76% and a net loss of \$3.5 million was recorded during the year ended December 31, 2007 as compared to net income of \$13.0 million recorded during the year ended December 31, 2006.

WCSB activity levels declined significantly during the year negatively impacting the Canadian Completion Services' and Drilling Services' financial results. Additional equipment added by industry participants to the WCSB combined with weak customer demand has reduced the Canadian Completion Services and Drilling Services utilization levels and put downward pressure on pricing. As a result, the 2007 financial results for these segments are significantly lower than the 2006 financial results.

The US Rocky Mountain region did not experience a similar decline in activity. The US Production Testing division continued to operate at near full capacity during 2007 and its financial results reflect these strong activity levels. The US Production Testing division's consistent financial results over the past year are reflective of the solid activity levels experienced in the US Rocky Mountain region combined with the fact that this division has firmly established itself in this market.

The US Fracturing division's activity levels have gradually increased since April 2007; however, the division has recorded a significant operating loss during the year as the level of activity has not been sufficient to cover the division's operating expenses. The inability of the division's fracturing sand supplier to supply adequate quantities of fracturing sand significantly reduced the division's ability to generate revenue.

A number of one time non-operating items impacted the financial results for the year including: the goodwill impairment, the note receivable impairment; severance and termination expenses; a contingent loss relating to an overtime claim; which were partially offset by the gain on sale of a drilling rig. The net after-tax impact of these one time non-operating items was to reduce net income by approximately \$2 million. The Corporation also recorded a tax rate reduction relating to the Canadian Federal government's substantively enacted future corporate income tax rates. The net after-tax impact of the tax rate reduction was approximately \$2.1 million.

Results of Operations

Three Months Ended December 31, 2007 Compared to the Three Months Ended December 31, 2006

Canadian Completion Services

Canadian Completion Services						
Financial Results						
Three months ended, (\$ thousands, unaudited)	December 31, 2007	% of Revenue	December 31, 2006	% of Revenue	Year-Over-Year Change	
					\$	Percentage
Revenue	\$15,124	100%	\$19,904	100%	\$ (4,780)	(24)%
Expenses						
Operating	10,822	71.6%	13,821	69.4%	(2,999)	(22)%
Selling, general and administrative	1,742	11.5%	1,627	8.2%	115	7%
Depreciation and amortization	1,737	11.5%	1,480	7.4%	257	17%
Other expense / (income)	745	4.9%	(38)	(0.2)%	783	-
Income before income taxes	78	0.5%	3,014	15.1%	(2,936)	(97)%

Canadian Completion Services Revenue

Revenue for Canadian Completion Services decreased 24% in the 2007 fourth quarter compared to the 2006 fourth quarter as a result of a slowdown in the demand for completion services. The Canadian Completion Services job count decreased by 25%, with the most prominent decreases in the Production Testing and Multiline divisions. The decrease in job count is comparable to the decline in industry activity as evidenced by the CAODC active rig count decline of 27%. Average revenue per job for the 2007 fourth quarter was consistent with the 2006 fourth quarter primarily due to a change in the geographic sales mix. A larger proportion of the segment's overall job count was performed in northern regions of the WCSB which typically experiences higher revenue per job relative to the 2006 fourth quarter.

Revenue and job count for the Production Testing division decreased 38% and 36%, respectively. The reduced activity levels were primarily the result of the decline in industry activity levels which resulted in a decline in job count for the division's southern region. Average revenue per job only decreased by 3% as a result of a larger percentage of the overall job count being performed in the northern locations where average revenue per job is typically higher. In light of these operating conditions, management has transferred two more units to the US Production Testing division where utilization levels are significantly higher.

Revenue and job count for the Multiline division decreased 25% and 24%, respectively. Average revenue per job remained at consistent levels quarter over quarter. The decrease in job count is largely related to the slow down in industry activity. The Multiline division performed more deep critical sour jobs during the quarter which contributed to the decrease in job count but had the effect of offsetting the impact of lower pricing on average revenue per job as deep critical sour jobs typically require more preparation and planning relative to other Multiline services on conventional wells and typically produce a higher average revenue per job. Average revenue per job was virtually unchanged as a result of more deeper critical sour gas services being performed coupled with an increase in the amount of larger, more technical jobs that resulted in higher average revenue per job.

Revenue and job count for the Logging and Perforating division decreased 3% and 2% respectively. The Logging and Perforating division experienced an 11% job count decline which was almost entirely offset by an increase in job count for specialty logging services performed for a major customer relating to regulatory requirements. Average revenue per job for the 2007 fourth quarter remained at comparable levels to the 2006 fourth quarter as a result of the increase in the amount of higher revenue per job specialty regulatory services performed during the quarter relative to conventional logging and perforating services coupled with a shift towards more logging and perforating services being performed relating to oil directed activity as compared to gas directed activity. Oil directed activity typically involves deeper wells and more technical services which result in higher average revenue per job.

Canadian Completion Services Unit Complement	2007 Fourth Quarter Average	2007 Fourth Quarter Ending	2006 Fourth Quarter Average	2006 Fourth Quarter Ending
Production Testing Division	42.0	41	44.7	46
Logging and Perforating Division	21.7	21	20.0	20
Multiline Division	16.0	16	16.0	16
Canadian Completion Services Total	79.7	78	80.7	82

Canadian Completion Services Income before Income Taxes

Canadian Completion Services income before income taxes decreased 97% in the 2007 fourth quarter compared to the same period in 2006 primarily as a result of the decrease in revenue combined with decreases in the margin percentages experienced by the Production Testing and Multiline divisions. The 2007 fourth quarter results for the Logging and Perforating division were positive compared to the 2006 fourth quarter as margins improved slightly.

The Production Testing division's income before income taxes as a percentage of revenue decreased significantly primarily as a result of the decrease in revenue. Wages and benefits, unit expenses and other operating expenses all decreased significantly on a dollar basis; however the decrease was not as great in percentage terms as the decrease in revenue. Depreciation expense increased as a result of additional equipment deployed during the year.

The Logging and Perforating division's income before income taxes as a percentage of revenue increased by approximately 8% as a result of cost cutting measures taken during the year as evidenced by the 3% decrease in wages and benefits and 27% decrease in unit expenses. Depreciation expense increased as a result of additional equipment deployed during the year.

The Multiline division's income before income taxes as a percentage of revenue decreased significantly in the 2007 fourth quarter compared to the same period in 2006 primarily as a result of the decrease in revenue coupled with negative leverage on the division's fixed cost structure. Wages and benefits decreased significantly on a dollar basis; however the decrease was not as great in percentage terms as the decrease in revenue.

Other expenses increased by \$0.7 million as a result of the goodwill impairment recorded during the quarter.

US Completion Services

US Completion Services Financial Results						
Three months ended, (\$ thousands, unaudited)	December 31, 2007	% of Revenue	December 31, 2006	% of Revenue	Year-Over-Year Change	
					\$	Percentage
Revenue	\$10,960	100%	\$7,269	100%	\$3,691	51%
Expenses						
Operating	9,109	83.1%	5,916	81.4%	3,193	54%
Selling, general and administrative	1,529	14.0%	612	8.4%	917	150%
Depreciation and amortization	1,333	12.2%	599	8.2%	734	123%
Income (loss) before income taxes	(1,011)	(9.2)%	142	2.0%	(1,153)	(812)%

US Completion Services Revenue

Revenue for US Completion Services increased 51% in the 2007 fourth quarter compared to the 2006 fourth quarter as a result of increases in all three operating divisions.

Revenue and job count for the Production Testing division increased 20% and 32%, respectively, in the 2007 fourth quarter compared to the 2006 fourth quarter. The job count increase was partially offset by a 10% decrease in the division's average revenue per job. The job count increase is the result of an increase in utilization levels arising from adding more units under contract and a 19% increase in unit count in the 2007 fourth quarter compared to the 2006 fourth quarter. Average revenue per job decreased as a result of a larger proportion of work being performed under contract coupled with a decrease in the amount of under-balanced drilling services performed in the 2007 fourth quarter compared to the 2006 fourth quarter.

The US Logging and Perforating division continued to gain customer acceptance during the 2007 fourth quarter as evidenced by the 31% increase in revenue. Equipment utilization increased by approximately 20 percentage points during the 2007 fourth quarter compared to the 2006 fourth quarter. This division's utilization during the quarter is at acceptable operating levels, but still has room to grow before achieving full utilization. The services agreement previously entered into by Pure USA's Logging and Perforating division with a major independent oil and gas producer was recently renewed. In addition, Pure USA has received a commitment from an independent oil and gas producer for the performance of logging and perforating, testing and fracturing services for the 2008 contract year. As a result of these contracts and commitments and the employment of personnel with a high degree of technical logging and perforating experience in the Rocky Mountain region, this division has continued to increase its equipment utilization. Management anticipates that the expected increase in utilization of the fracturing spreads will have a further positive impact on the utilization of the logging and perforating units through the provision of complementary logging and perforating services. Additional equipment, including a wireline truck, a crane truck, support vehicles and logging tools, have been transferred from Canadian Operations to meet customer demand in the Rocky Mountain region.

The Fracturing division's revenue increased by \$2.3 million in the 2007 fourth quarter compared to the 2006 fourth quarter, and increased 11% compared to the 2007 third quarter. To date, the Fracturing division has been awarded two contracts by a major independent oil and gas producer for the provision of fracturing services in the Piceance Basin of Colorado. In addition, Pure USA has received commitments from two independent oil and gas producers for the performance of fracturing services during the 2008 contract year. Management expects continued increases in the utilization of Pure USA's fracturing equipment as a result of these contracts and commitments, the increased customer acceptance for fracturing services in the Rocky Mountain region and the expected recommencement of deliveries of fracturing sand from its sand supplier expected during the second quarter of 2008.

US Completion Services Unit Complement	2007 Fourth Quarter		2006 Fourth Quarter	
	Average	Ending	Average	Ending
Production Testing Division	25.0	26	21	21
Logging and Perforating Division	2.3	3	2	2
Fracturing Division ⁽¹⁾	2.3	3	0.3	1
US Completion Services Total	29.6	32	23.3	24

(1) – A fracturing spread is made up of several pieces of specialized equipment.

US Completion Services Income before Income Taxes

US Completion Services income before income taxes decreased by \$1.2 million in the 2007 fourth quarter compared to the 2006 fourth quarter primarily as a result of the operating loss recorded by the Fracturing division, an increase in depreciation expense relating to the equipment added during the year, and increased administrative expenses associated with the growth of the US corporate office in Denver.

The US Production Testing division's income before income taxes increased by 41% as a result of the incremental margin generated from the equipment added to the division since the 2006 fourth quarter. Wages and benefits decreased four percentage points as a percentage of revenue, which was partially offset by an increase in unit expenses, depreciation expense, and repair and maintenance expenses.

The US Fracturing division's results continued to be hampered by the sand supply issues with its sand supplier during the 2007 fourth quarter. Management has received confirmation of the closing of the third party purchase of all of the equity interests of Legacy Resources Company LLC ("Legacy"), Pure USA's principal fracturing sand supplier. Management has been advised that the reconstruction of Legacy's sand processing facility is underway, with completion expected during the second quarter of 2008. Management continues to be confident that Pure USA will have sufficient volumes of fracturing sand to meet its contractual obligations for the provision of fracturing services in 2008.

The US Logging and Perforating division's income before income taxes significantly improved from a small operating loss recorded during the 2006 fourth quarter to an acceptable gross margin and income before income taxes during the 2007 fourth quarter. Changes to key operating personnel combined with significant activity and revenue generated from the services agreement with a major independent oil and gas producer generated positive leverage on this division's fixed cost structure resulting in acceptable income before income taxes during the quarter. Further improvements in operating results may be achieved if this division continues to increase its equipment utilization.

US administrative expenses have increased as a result of a significant contingent loss relating to an overtime claim recorded during the quarter coupled with growth in the administrative infrastructure required to support the current and expected future growth of the US operations.

Drilling Services

Drilling Services Financial Results Three months ended, (\$ thousands, unaudited)	December 31, 2007	% of Revenue	December 31, 2006	% of Revenue	Year-Over-Year Change	
					\$	Percentage
Revenue	\$ 4,931	100%	\$ 7,705	100%	\$ (2,774)	(36)%
Expenses						
Operating	4,255	86.3%	5,152	66.9%	(897)	(17)%
Selling, general and administrative	638	12.9%	556	7.2%	82	15%
Depreciation and amortization	324	6.6%	265	3.4%	59	22%
Other income	528	10.7%	(7)	(0.1)%	535	-
Income (loss) before income taxes	(814)	(16.5)%	1,739	22.6%	(2,553)	(147)%

Drilling Services Revenue

Revenue for Drilling Services decreased 36% in the 2007 fourth quarter compared to the 2006 fourth quarter largely as a result of the decline in utilization levels and drilling rig day rates experienced by the Quintera Drilling division. The Motorworks Rentals division's revenue increased by 5% primarily as a result of an increase in the amount of directional drilling services performed in the 2007 fourth quarter relative to the 2006 fourth quarter.

Revenue for the Quintera Drilling division decreased by 50% in the 2007 fourth quarter compared to the 2006 fourth quarter. The decrease in revenue was largely the result of a decrease in utilization resulting from lower industry activity levels as evidenced by the CAODC rig count decline of 27%. An average of 9.0 drilling rigs operated during the 2007 fourth quarter at an average utilization rate of 18% compared to an average of 8.3 drilling rigs operating during the 2006 fourth quarter at an average utilization rate of 33%.

Revenue for the Motorworks Rentals division increased 5% in the 2007 fourth quarter compared to the 2006 fourth quarter. Average revenue per job increased while utilization levels decreased by approximately 10%. Average revenue per job increased due an increase in the amount of directional drilling services performed. Utilization levels decreased as a result of the slowdown in drilling activity in the WCSB.

Drilling Services Unit Complement	2007 Fourth Quarter		2006 Fourth Quarter	
	Average	Ending	Average	Ending
Drilling rigs	9.0	10	8.3	9
Mud motors	59.7	59	49.3	56

Drilling Services Income before Income Taxes

Income before income taxes for the Drilling Services segment decreased by 147% in the 2007 fourth quarter compared to the 2006 fourth quarter primarily due to the decrease in revenue. The decrease reflects the slowdown in industry drilling activity for the Quintera Drilling division and the Motorworks Rentals division.

The Quintera Drilling division experienced a significant decline in income before income taxes primarily as a result of the decrease in revenue. Wages and benefits, unit expenses and other operating expenses all decreased significantly on a dollar basis; however the decrease was not as great in percentage terms as the decrease in revenue. The reduced utilization rates experienced during the quarter coupled with the reduction in drilling day rates resulted in decreased margins generated by the division.

The Motorworks Rentals division experienced a decrease in income before income taxes as a result of an increase in equipment rental expenses, salaries and wages, depreciation, and insurance expenses. Equipment rental expenses increased due to an increase in the amount of directional drilling services performed. Depreciation and insurance expenses have increased as a result of equipment added during the year. Salaries and wages have increased due to an increase in head count.

Other expenses increased by \$0.5 million as a result of the goodwill impairment recorded during the quarter.

Corporate

Corporate Services Financial Results					Year-Over-Year Change	
Three months ended, (\$ thousands, unaudited)	December 31, 2007	% of Consolidated Revenue	December 31, 2006	% of Consolidated Revenue	\$	Percentage
Expenses						
Selling, general and administrative	\$1,652	5.3%	\$1,441	4.1%	\$ 211	15%
Interest on long-term debt	734	2.4%	254	0.7%	480	189%
Other interest	30	0.1%	211	0.6%	(181)	(86)%
Foreign exchange (gain) / loss	(47)	(0.2)%	(533)	(1.5)%	486	(91)%
Other income	(3,511)	(11.3)%	-	-	(3,511)	-
Income (loss) before income taxes	1,142	3.7%	(1,373)	(3.9)%	2,515	183%

Other income increased significantly as a result of the \$3.5 million recovery of the previously recorded impairment of the note receivable. Refer to the Critical Accounting Estimates section in this MD&A for further discussion of the note receivable. The foreign exchange gain recorded during the 2007 fourth quarter decreased by \$0.5 million as a result of the change in accounting policy from the integrated method to self-sustaining method of foreign currency translation. Interest expense increased as a result of higher debt balances carried during the 2007 fourth quarter relative to the 2006 fourth quarter. SG&A expenses increased \$0.2 million or 15% primarily as a result of higher salary and wages and insurance expense. Significant cost cutting measures have been taken in the 2007 fourth quarter primarily relating to a reduction in corporate head count.

Income Tax Expense

The 2007 fourth quarter income tax provision significantly decreased relative to the 2006 fourth quarter income tax provision largely due to the decrease in income before income taxes. The total income tax provision differs from the expected income tax provision as a result of the impact of the reduction in the future tax liability due to the Canadian Federal government's substantively enacted future corporate income tax rates combined with the tax impact of permanent differences.

Results of Operations

Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006

Canadian Completion Services

Canadian Completion Services Financial Results					Year-Over-Year Change	
Year ended, (\$ thousands)	December 31, 2007	% of Revenue	December 31, 2006	% of Revenue	\$	Percentage
Revenue	\$61,101	100%	\$80,311	100%	\$ (19,210)	(24)%
Expenses						
Operating	46,834	76.7%	53,114	66.1%	(6,280)	(12)%
Selling, general and administrative	8,246	13.5%	7,262	9.0%	984	14%
Depreciation and amortization	6,537	10.7%	5,348	6.7%	1,189	22%
Other (income) / expense	457	0.7%	10	-	447	-
Income (loss) before income taxes	(973)	(1.6)%	14,577	18.2%	(15,550)	(107)%

Canadian Completion Services Revenue

Revenue for Canadian Completion Services decreased 24% in 2007 compared to 2006 as a result of a decrease in job count of 27%, which was partially offset by an increase in average revenue per job of 4%. The job count decline experienced during the year was slightly less than the CAODC active rig count decline of 33%.

Revenue for the Production Testing division decreased 31% in 2007 compared to 2006 as a result of a 31% decrease in job count while average revenue per job was unchanged year over year. The decrease in job count was the result of the slowdown in industry activity during the year. Average revenue per job was unchanged year over year primarily due to an increase in the amount of services performed in the division's northern region when compared to the southern region as average revenue per job is typically higher in the north relative to the south. The overall job count decrease was offset by the increased amount of work performed in the north which generates higher average revenue per job.

Revenue for the Logging and Perforating division decreased 15% in 2007 compared to 2006 as a result of a 17% decrease in job count which was partially offset by a 2% increase in average revenue per job. The decrease in job count was comparable to the PSAC well count decline of 20%. Average revenue per job increased by 2% as a result of an increase in the specialty logging services average revenue per job compared to 2006 which was partially offset by a reduction in average revenue per job for traditional logging and perforating services. Average revenue per job for specialty logging services increased due to an increase in the higher revenue per job specialty regulatory services performed during the year.

Revenue for the Multiline division decreased 23% in 2007 compared to 2006 as a result of a 29% decrease in job count, which was partially offset by a 9% increase in average revenue per job. The decrease in job count is the result of the industry slowdown combined with an increase in the amount of deep critical sour services performed. The increase in average revenue per job is the result of the increased amount of deep critical sour gas services performed coupled with additional charges relating to regulatory requirements.

Canadian Completion Services Income before Income Taxes

Canadian Completion Services income before income taxes decreased significantly in 2007 compared to 2006 primarily as a result of the decrease in revenue across all three operating divisions.

The Production Testing division's income before income taxes as a percentage of revenue decreased significantly primarily as a result of the decrease in revenue. Wages and benefits, unit expenses and other operating expenses all decreased significantly on a dollar basis; however the decrease was not as great in percentage terms as the decrease in revenue. Depreciation expense increased as a result of additional equipment deployed during the year.

The Logging and Perforating division's income before income taxes as a percentage of revenue decreased by approximately fifty percent primarily as a result of the decrease in revenue combined with the division's fixed cost structure. Cost cutting measures implemented during the third and fourth quarters of 2007 are showing signs of margin improvement for this division as evidenced by the division's 2007 fourth quarter results. Depreciation expense increased as a result of the additional equipment added during the year.

The Multiline division's income before income taxes as a percentage of revenue decreased significantly as a result of the decrease in revenue combined with negative leverage on the division's fixed cost structure.

SG&A expenses increased by \$1.0 million primarily as a result of severance and termination expenses incurred during the year.

US Completion Services

US Completion Services Financial Results					Year-Over-Year Change	
Year ended, (\$ thousands)	December 31, 2007	% of Revenue	December 31, 2006	% of Revenue	\$	Percentage
Revenue	\$40,078	100%	\$22,536	100%	\$17,542	78%
Expenses						
Operating	32,822	81.9%	18,738	83.1%	14,084	75%
Selling, general and administrative	4,079	10.2%	2,021	9.0%	2,058	102%
Depreciation and amortization	4,618	11.5%	1,812	8.0%	2,806	155%
Other expense	-	-	2	-	(2)	(100)%
Loss before income taxes	1,441	3.6%	37	0.2%	1,404	-

US Completion Services Revenue

Revenue for US Completion Services increased 78% in 2007 compared to 2006 primarily as a result of increased equipment capacity and increased utilization levels across all three operating divisions, which was partially offset by a 14% decrease in the average CAD/USD exchange rate.

Revenue and job count for the Production Testing division increased 41% and 43%, respectively. The job count increase was partially offset by a 1% decrease in average revenue per job. The job count increase is the result of increased utilization levels maintained by the division during 2007 as a result of the increased number of units under contract, and a 28% increase in unit count as a result of units being transferred from the Canadian Production Testing division. Average revenue per job decreased slightly as a result of a larger proportion of work performed under contract coupled with a reduction in the amount of under-balanced drilling services performed in 2007 compared to 2006.

Revenue for the US Logging and Perforating division increased 161% during 2007 compared to 2006. Revenue has continued to increase on a quarter over quarter basis as a result of the hiring of key operating personnel and increased customer acceptance. Equipment utilization increased by approximately 17 percentage points during the year, but still has room to improve relative to management's expectations for this division. Management expects that revenue will continue to increase due to the renewal of existing contracts and work commitments from other customers.

The Fracturing division's revenue increased by \$7.2 million in 2007 compared to 2006 as a result of an increase in the number of jobs performed during the year. Utilization of equipment was well below management expectations as a result of the failure of the Corporation's sand supplier to supply adequate quantities of 20/40 sand. Management expects continued increases in the utilization of Pure USA's fracturing equipment as a result of the new customer contracts and commitments, the increased customer acceptance for fracturing services in the Rocky Mountain region and the expected recommencement of deliveries of fracturing sand from its sand supplier in the 2008 second quarter.

US Completion Services Income before Income Taxes

US Completion Services income before income taxes decreased by \$1.4 million in 2007 compared to 2006. The decrease was primarily a result of the operating loss incurred by the Fracturing division, increased administrative expenses in the Denver office, and increased depreciation and amortization expenses relating to the equipment added to the US segment.

The US Production Testing division's income before income taxes increased by approximately 180% as a result of the additional revenue and incremental margin generated from increased utilization and units added during the year. Wages and benefits and repair and maintenance expenses decreased as a percentage of revenue, which was partially offset by an increase in depreciation expense and unit expenses.

The US Fracturing division operated at a significant operating loss as a result of the sand supply shortage experienced during the year. The low revenue levels achieved combined with the large component of fixed wage expenses resulted in financial results well below management expectations. Management continues to be confident that Pure USA will have sufficient volumes of fracturing sand to meet its contractual obligations for the provision of fracturing services in 2008 and expects the division's financial results to improve.

The US Logging and Perforating division's income before income taxes improved marginally as the division generated a small operating loss in 2007. The division made changes to key operating personnel midway through the year which has improved the division's results. Management anticipates that the results for this division will continue to improve during 2008 as customer work commitments and contracts are expected to result in increased activity levels for this division. The Canadian Logging and Perforating division has transferred one unit to the US Logging and Perforating division in anticipation of increased activity levels for this division.

US administrative expenses have increased as a result of growth in the administrative infrastructure required to support the current and anticipated future growth of the US operations. The increase in expenses primarily relates to an increase in salary and wages as a result of an increase in head count. A significant contingent loss relating to an employee overtime claim also contributed to the increase in US administrative expenses.

Drilling Services

Drilling Services Financial Results						
Year ended, (\$ thousands)	December 31, 2007	% of Revenue	December 31, 2006	% of Revenue	Year-Over-Year Change	
					\$	Percentage
Revenue	\$23,907	100%	\$32,508	100%	\$ (8,601)	(26)%
Expenses						
Operating	17,463	73.0%	19,285	59.3%	(1,822)	(9)%
Selling, general and administrative	2,675	11.2%	1,955	6.0%	720	37%
Depreciation and amortization	1,426	6.0%	1,289	4.0%	137	11%
Other income	(1,360)	(5.7)%	(143)	(0.4)%	(1,217)	-
Income before income taxes	3,703	15.5%	10,122	31.1%	(6,419)	(63)%

Drilling Services Revenue

Revenue for Drilling Services decreased 26% in 2007 compared to 2006 as a result of the decrease in utilization of the Quintera Drilling division's rigs coupled with a reduction in drilling rig day rates. The decrease in revenue for the Quintera Drilling division was partially offset by a 15% increase in revenue in the Motorworks Rentals division.

Revenue for the Quintera Drilling division decreased by 36% in 2007 compared to 2006. An average of 9.5 drilling rigs operated during 2007 at an average utilization rate of 23% compared to an average of 7.3 drilling rigs operating during 2006 at an average utilization rate of 44%. Utilization levels remained low largely as a result of the industry activity slowdown experienced during the year as evidenced by the CAODC rig count decline of 33%.

Revenue for the Motorworks Rentals division increased by 15% as a result of an increase in unit capacity coupled with an increase in the amount of directional drilling work performed in 2007 compared to 2006. Directional drilling services generally have higher average revenue per job than mud motor rentals.

Drilling Services Income before Income Taxes

Income before income taxes for Drilling Services decreased 63% in 2007 compared to 2006 primarily as a result of the significant decrease in revenue. Wages and benefits, unit expenses and other operating expenses all decreased significantly on a dollar basis; however the decrease was not as great in percentage terms as the decrease in revenue. Reduced utilization levels coupled with decreased day rates generated by the Quintera Drilling division resulted in reduced margins.

The Motorworks Rentals division income before income taxes decreased despite an increase in revenue as a result of additional expenses relating to additional directional drilling services performed. Directional drilling services generally achieve higher average revenue per job, however at lower margins due to increased expenses associated with these services. An increase in wages and benefits, depreciation expense, and repairs and maintenance also contributed to the decrease.

SG&A expenses increased as a result of an increase in salaries and related expenses. Other income has increased primarily due to the gain recorded on the sale of a drilling rig in the amount of \$1.8 million, which was partially offset by the \$0.5 million goodwill impairment.

Corporate

Corporate Services Financial Results Year ended, (\$ thousands)	December 31, 2007	% of Consolidated Revenue	December 31, 2006	% of Consolidated Revenue	Year-Over-Year Change	
					\$	Percentage
Expenses						
Selling, general and administrative	\$ 6,549	5.2%	\$ 5,862	4.3%	\$ 687	12%
Interest on long-term debt	1,913	1.5%	685	0.5%	1,228	179%
Other interest	534	0.4%	211	0.2%	323	153%
Foreign exchange (gain) / loss	38	-	(239)	(0.2)%	277	116%
Other expenses (income)	622	0.5%	(206)	(0.2)%	828	402%
Loss before income taxes	9,656	7.7%	6,313	4.7%	3,343	53%

Corporate expenses for 2007 increased 53% compared to 2006 relative to the 8% decrease in consolidated revenue for the same comparative period. Interest expense increased \$1.6 million as a result of higher debt balances carried during fiscal 2007 as compared to fiscal 2006. Other expenses increased by \$0.8 million primarily as a result of the \$0.7 million impairment of the note receivable. SG&A expenses increased \$0.7 million or 12%, mainly as a result of increased salary and wage expenses, insurance expenses, and public company expenses. Stock based compensation expense increased by approximately \$0.1 million and also contributed to the increase in SG&A expenses.

Income Tax Expense

The 2007 income tax provision significantly decreased relative to the 2006 income tax provision largely due to the decrease in income before income taxes. The total income tax provision differs from the expected income tax provision as a result of the impact of the reduction in the future tax liability due to the Canadian Federal government's substantively enacted future corporate income tax rates combined with the tax impact of permanent differences including the non-taxable portion of a capital gain and stock based compensation expense.

Capital Expenditures

('000's)	Three months ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Canadian Completion Services	\$ 3,122	\$ 1,321	6,488	\$ 8,841
US Completion Services	573	4,980	19,596	33,260
Drilling Services	2,614	9,507	8,642	23,214
Corporate	295	259	1,114	1,288
Total Capital Expenditures	\$ 6,604	\$ 16,067	\$ 35,840	\$ 66,603

The Canadian Completion Services 2007 capital expenditures represent the purchase of real property and progress payments relating to the construction of a building, final payments relating to two mini-loggers, and sustaining capital for all divisions.

The US Completion Services 2007 capital expenditures represent payments for fracturing equipment, a deposit on real property, and sustaining capital.

The Drilling Services 2007 capital expenditures represent payments relating to drilling rigs nine, ten and eleven, support equipment for the Motorworks Rentals division, and sustaining capital.

Liquidity and Capital Resources

Cash Provided by Operating Activities for the Three Months Ended December 31, 2007

Cash received for services performed exceeded cash payments related to operating expenses, and interest expense during the quarter ended December 31, 2007 by \$3.3 million.

Cash Provided by Operating Activities for the Year Ended December 31, 2007

Cash received for services performed exceeded cash payments related to operating expenses, and interest expense during the year ended December 31, 2007 by \$15.9 million.

Working Capital

(\$ thousands)	As at December 31, 2007	As at December 31, 2006
Current assets	\$ 28,648	\$ 39,091
Current liabilities	15,714	29,786
Working capital	\$ 12,934	\$ 9,305

Working capital increased by \$3.6 million when compared on a year over year basis. The decrease in current assets of \$10.4 million primarily relates to the decrease in accounts receivable of \$9.0 million, the decrease in the current portion of the note receivable of \$2.3 million and the decrease in income taxes recoverable of \$0.7 million. These

decreases were partially offset by the increase in inventory of \$1.6 million primarily relating to the growth in fracturing sand inventory.

The decrease in current liabilities of \$14.1 million primarily relates to a decrease in the Corporation's operating loan of \$14.6 million, which was partially offset by an increase in accounts payable and accrued liabilities of \$0.5 million.

Financing

The Corporation's primary sources of financing are bank debt and equity issuances. The Corporation has a \$20 million revolving demand operating loan, a \$5 million non-revolving term loan facility and a \$60 million extendible revolving loan facility. The revolving demand operating loan is repayable upon demand. The non-revolving term loan facility is repayable monthly over 15 years.

The extendible revolving loan facility is renewable annually at the option of the lender. If this facility is not extended, the amounts outstanding thereunder will be transferred to a four year term facility, repayable monthly. Subsequent to year end, the Corporation received confirmation from its lender revising the extendible revolving loan facility's renewal date from June 30, 2008 to June 30, 2009.

On February 6, 2006, the Corporation completed an initial public offering of 3.125 million common shares for net proceeds of approximately \$46 million. A portion of the net proceeds were used to repay the outstanding balance under the Corporation's extendible revolving loan facility with the balance remaining as cash.

As at March 19, 2008, the Corporation had 15,847,031 common shares and 1,275,024 stock options outstanding.

The Corporation, through the conduct of its operations, has undertaken certain contractual obligations. As at December 31, 2007, the Corporation's contractual obligations were as follows:

Contractual Obligations ('000's)	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long-term debt obligations ⁽¹⁾	40,833	333	14,354	18,917	7,229
Purchase obligations	29,412	12,759	13,585	3,068	-
Operating leases	12,293	4,732	5,563	1,690	308
Total Contractual Obligations	82,538	17,824	33,502	23,675	7,537

- (1) Long-term debt obligations represent balances outstanding under the extendible revolving loan facility and the non-revolving loan facility and the obligations in the table above assumes the revolving facility is not renewed in 2009.

Cash Requirements

<i>As at December 31, 2007</i>	
Committed capital expenditures	\$ 9,750
Uncommitted capital expenditures	-
Remaining 2007 capital budget	\$ 9,750
2008 capital budget	7,237
2008 expected capital expenditures	\$ 16,987

As at December 31, 2007, the Corporation has an approved 2008 capital expenditure program of \$7.2 million which funds are not committed, but are expected to be required by management.

The Corporation has committed to spend \$9.8 million which represents the capital expenditures necessary to complete capital projects currently underway and provided for under the Corporation's 2007 capital expenditure program.

The Corporation has historically financed its capital expenditures with funds from operations, equity issuances and debt. As at December 31, 2007, the Corporation has available debt capacity of \$23.5 million on its extendible revolving term loan facility.

On March 19, 2008, the Board of Directors of the Corporation approved additional capital expenditures of \$4.0 million for the Corporation for 2008.

Off Balance Sheet Arrangements

The Corporation has not entered into any off-balance sheet arrangements.

Related Party Transactions

During fiscal 2007, the Corporation incurred and paid legal fees of \$nil (2006 - \$127) to an officer and former director. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Corporation has entered into a seven year operating lease, expiring May 2012, with a company controlled by an employee of the Corporation. Annual lease payments are \$0.1 million. This transaction is in the normal course of operations and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Fracturing Sand Supply

Management has received confirmation of the closing of the third party purchase of all of the equity interests of Legacy Resources Company LLC ("Legacy"), Pure USA's principal fracturing sand supplier. Pure USA has received payment totaling US\$4.9 million in satisfaction of the loan owing by Legacy to Pure USA and as reimbursement of certain expenses incurred by Pure USA. Management has been advised that the reconstruction of Legacy's sand processing facility is underway, with completion expected during the 2008 second quarter. Management continues to be confident that Pure USA will have sufficient volumes of fracturing sand to meet its contractual obligations for the provision of fracturing services during 2008.

Critical Accounting Estimates

The Corporation prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). In preparing its financial statements, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses, as

well as the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience and various other assumptions believed to be reasonable at the time and under the circumstances in existence when the financial statements were prepared. Anticipating future events cannot be done with certainty; therefore, these estimates may change as new events occur, more experience is acquired or the Corporation's operating environment changes. The accounting estimates believed by management to require the most difficult, subjective or complex judgments and which are material to the Corporation's financial reporting results are set out below.

Contingency

The Corporation's wholly-owned subsidiary, Pure Energy Services (USA), Inc. ("Pure USA") has been named in a lawsuit commenced by former employees claiming damages. A liability has been recorded in the financial statements based on management's reasonable estimate of the contingent liability as at December 31, 2007. Exposure to a loss in excess of the liability recorded exists, but is not determinable at this time.

Allowance for Doubtful Accounts Receivable

The Corporation periodically evaluates its accounts receivable on an individual and overall customer basis. This process consists of a review of historical collection experience, current aging status of the customer accounts and other factors. Based on its review of these factors, it establishes or adjusts allowances for specific customers. This process involves a high degree of judgment and estimation. Accordingly, the Corporation's results of operations can be affected by adjustments to the allowance due to actual write-offs that differ from estimated amounts.

Impairment of Long-Lived Assets

Long-lived assets are tested for impairment annually, or more frequently as circumstances require. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Estimates of undiscounted future net cash flows are calculated using estimated future revenues, operating expenses and other costs. These estimates are subject to risk and uncertainties, and it is possible that changes in estimates could occur which may effect the expected recoverability of the Corporation's long-lived assets.

To test for and measure impairment, long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent. The lowest asset groupings for which identifiable cash flows are largely independent are the Production Testing divisions, the Logging and Perforating divisions, the Multiline Services division, the Fracturing division, the Quintera Drilling division, the Motorworks Rentals division and the Pressure Transient Analysis division or reporting units within the Completion Services segment and the Drilling Services segment.

Based on management's expectations for continued demand for the Corporation's services, the assumptions utilized to determine the future recoverability of long-lived assets resulted in no indication as at December 31, 2007 that the carrying value of the long-lived assets would not be recoverable in the future.

Goodwill Impairment

Goodwill represents the excess of purchase price for a company acquired over the fair market value of the acquired company's net assets. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is tested for impairment at least annually.

As at December 31, 2007, the Corporation recorded a goodwill impairment of \$1.2 million. The conditions which precipitated the goodwill impairment were weakened industry activity largely attributable to low North American natural gas prices, the strengthened Canadian dollar, excess equipment capacity in the WCSB and unfavourable royalty changes announced by the Alberta government. The weakened industry activity has resulted in a deterioration of the Corporation's financial results. The weak industry activity environment is expected to continue at least into the near term. The culmination of these conditions has decreased the market value of the Corporation and as a result management determined that the goodwill impairment exists.

Depreciation and Amortization of Property and Equipment and Intangible Assets

Depreciation and amortization is calculated using either the straight-line or declining balance method over the estimated useful life of the asset. Management bases the estimate of the useful life and salvage value of equipment on expected utilization, technological change and effectiveness of maintenance programs. Although management believes the estimated useful lives and salvage values of the Corporation's equipment are reasonable, they can not be certain that depreciation and amortization expense measures with precision the true reduction in value of assets over time.

Income Taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, the Corporation records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted tax rates. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the future tax asset will not be realized. Estimates of future taxable income and the continuation of ongoing prudent tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions may require changes to the valuation allowances associated with the Corporation's future tax assets.

Accounting Policies

The Corporation prepares its financial statements in accordance with GAAP. Except as discussed below, accounting policies have been applied consistently during all periods included in the financial statements. Certain information of the previous period has been reclassified to conform to the presentation adopted in the current year.

Change in Accounting Policy

Since the Corporation's foreign operations in the United States have matured to the extent that they no longer require day to day financial assistance, they have been reclassified from integrated to self-sustaining operations. As a result, the Corporation has prospectively changed to the current rate method of foreign currency translation from the temporal method for consolidating its US operations. The exchange gain or loss attributable to current rate translation of non-monetary and monetary items as of the date of the change has been included as part of accumulated other comprehensive income (loss), a separate component of shareholders' equity.

On January 1, 2007, the Corporation adopted new Canadian accounting standards for financial instruments and other comprehensive income. Prior periods have not been restated. The new standards require that the note receivable be measured at fair value using the effective interest method with any adjustment of the previous carrying amount recognized as an adjustment of the opening balance of retained earnings at the beginning of the fiscal year in which the standard is initially adopted. Future gains or losses are recognized when the asset is derecognized.

The new standards require that the Corporation present a Consolidated Statement of Comprehensive Income (Loss), which is comprised of net income (loss) and the unrealized foreign exchange gain or loss for the period related to the net investment in foreign operations.

Accounting pronouncements

New Canadian accounting standards have been issued which will require additional disclosure in the Corporation's financial statements commencing January 1, 2008 about the Corporation's inventories, accounting changes, financial instruments and capital disclosures.

Section 3031, Inventories supersedes *Section 3030* was issued in June 2007 and is effective for the Corporation on January 1, 2008. The new standard provides significantly more guidance on the measurement and disclosure of inventory. The measurement changes include: the elimination of LIFO, the requirement to measure inventories at the lower of cost and net realizable value, the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosure of inventories has also been enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed.

Section 1506, Accounting Changes, issued in July 2006 and effective for the Corporation on January 1, 2008, revised current standards on changes in accounting policy, estimates or errors. An entity is permitted to change an accounting policy only when it results in financial statements that provide reliable and more relevant information or results from a requirement under a primary source of Canadian GAAP. The guidance also addresses how to account for a change in accounting policy, estimate or correction of errors, and establishes enhanced disclosures about their effects on the financial statements.

Sections 3862 and 3863, Financial Instruments – Disclosure and Presentation, issued in December 2006 and effective for the Corporation on January 1, 2008, revise the current standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3863 also establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

Section 1535, Capital Disclosures issued in December 2006 and effective for the Corporation on January 1, 2008, establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed including enhanced disclosure requirements with respect to the objectives, policies and processes for managing capital.

The Corporation is currently assessing the impact these standards will have on its consolidated financial statements.

Certification of Annual Filings

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Corporation's disclosure controls and procedures. They are assisted in this responsibility by the Corporation's senior management team. Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to Management as appropriate to allow timely decisions regarding required disclosure. An evaluation of the design and operating effectiveness of the Corporation's disclosure controls and procedures as of December 31, 2007 was performed under the supervision of the Chief Executive Officer and Chief Financial Officer and with participation of the Corporation's senior management. The Chief Executive Officer and Chief Financial Officer have concluded, as of the date of this MD&A that the Corporation's disclosure controls and procedures have been designed and are operating effectively to provide reasonable assurance that material information related to the Corporation is made known to them by others within the Corporation.

It should be noted that while the Corporation's Chief Executive Officer and Chief Financial Officer believe that disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures would prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of the Corporation are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. An evaluation of the design effectiveness of the Corporation's internal controls over financial reporting as of December 31, 2007 was performed under the supervision of the Chief Executive Officer and Chief Financial Officer and with participation of the Corporation's senior management. The Chief Executive Officer and Chief Financial Officer have concluded, as of the date of this MD&A, that the Corporation's internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

As required, the Company records complex and non-routine transactions. These sometimes are extremely technical in nature and require an in-depth understanding of GAAP. To address this risk, the Company consults with its third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. Management does not expect that the internal controls over financial reporting would prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There have been no changes in the design of the Corporation's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting during the quarter ending December 31, 2007.

Financial Instruments

Fair Values of Financial Assets and Liabilities

The fair values of cash, accounts receivable, marketable securities, income taxes recoverable, and accounts payable and accrued liabilities and income taxes payable included in the Corporation's consolidated balance sheets, approximate their carrying amount due to the short-term maturity of these instruments. The operating loan and demand loans approximate their carrying amount due to the variable interest rates applied to these loans.

Business Risks

Credit Risk

Accounts receivable include balances from a large number of customers. The Corporation assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accordingly, the Corporation views the credit risks on these amounts as normal for the industry.

Interest Rate Risk

The Corporation manages its exposure to interest rate risks through a combination of fixed and variable rate borrowing facilities that are available if required. As at December 31, 2007, all of its borrowings were at variable rates.

Foreign Currency Risk

The Corporation is exposed to foreign currency fluctuations in relation to the US Operations. The reported results of the US Operations are affected primarily by the movement in exchange rates between the Canadian and US dollars. The Corporation's Canadian Operations include exchange rate exposure as some receivables are with US customers and some materials are from US suppliers. Other than natural hedges undertaken in the normal course of ongoing business, no hedging positions are currently in place.

Volatility of Industry Conditions

The demand, pricing and terms for oilfield services in the Corporation's existing or anticipated service areas largely depend upon the level of exploration and development activity for both crude oil and natural gas in the WCSB and the US Rocky Mountain region. Oil and gas industry conditions are influenced by numerous factors over which the Corporation has no control, including: oil and natural gas prices; expectations about future oil and natural gas prices; levels of consumer demand; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery rates of new oil and natural gas reserves; available pipeline and other oil and natural gas transportation capacity; weather conditions; political, regulatory and economic conditions; and the ability of oil and natural gas companies to raise equity capital or debt financing.

The level of activity in the oil and natural gas exploration and production industry in the WCSB and the US Rocky Mountain region is volatile. No assurance can be given that expected trends in oil and natural gas exploration and production activities will continue. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and natural gas production levels and therefore affect the demand for drilling and well services by oil and natural gas exploration and production entities. A material decline in crude oil or natural gas prices or industry activity could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Seasonality

The level of activity in the oilfield services industry within the WCSB is influenced by seasonal weather. During excessively rainy periods, equipment moves may be delayed, thereby adversely affecting equipment utilization rates and revenues. If an unseasonably warm winter prevents sufficient freezing, the Corporation may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. The volatility in the weather can therefore create unpredictability in activity and utilization rates, which may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Reliance on Personnel

The success of the Corporation is dependent upon its management, technical and field personnel. Any loss of the services of such individuals could have a material adverse effect on the business and operations of the Corporation. The ability of the Corporation to expand its services is dependent upon its ability to attract additional qualified employees. The ability to secure the services of additional personnel is constrained in times of strong industry activity.

Competition

The oilfield service industry is highly competitive and the Corporation competes with a substantial number of companies which have greater technical and financial resources. The Corporation's ability to generate revenue and earnings depends primarily upon its ability to win bids in competitive bidding processes and to perform awarded projects within estimated times and costs. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Corporation or that new or existing competitors will not enter the various markets in which the Corporation is active. In certain aspects of its business, the Corporation also competes with a number of small and medium-sized companies, which, like the Corporation, have certain competitive advantages such as low overhead costs and specialized regional strengths. In addition, reduced levels of activity in the oil and natural gas industry can intensify competition and may result in lower revenue to the Corporation.

Vulnerability to Market Changes

Fixed costs, including costs associated with operating losses, leases, labour costs and depreciation will account for a significant portion of the Corporation's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather or other factors could significantly affect financial results.

Dependence on Suppliers

The ability of the Corporation to compete and grow will be dependent on the Corporation having access, at a reasonable cost and in a timely manner, to equipment, parts and components. Failure of suppliers to deliver such equipment, parts and components at a reasonable cost and in a timely manner would be detrimental to the Corporation's ability to maintain existing customers and expand its customer list. No assurances can be given that the Corporation will be successful in maintaining its required supply of equipment, parts and components.

The Corporation's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Corporation purchases from various suppliers, most of whom are located in Canada or the United States. Alternate suppliers exist for all raw materials. In periods of high industry activity, as has been seen in recent years, periodic industry shortages of certain materials have been experienced and costs may be affected. The Corporation's source and supply of materials has been consistent in the past with the exception of 20/40 fracturing sand.

Management maintains relationships with a number of suppliers in an attempt to mitigate this risk. However, if the current suppliers are unable to provide the necessary raw materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to the Corporation's customers could have a material adverse effect on the Corporation's results of operations and the Corporation's financial condition.

Startup of Fracturing Division Operations

The Corporation's Fracturing Division was formed in 2006 for the purpose of providing fracturing services to customers in the Rocky Mountain region. Prior to the formation of this division, the Corporation had not previously carried on a fracturing business. While management of the Corporation believes that it has hired, and will be able to hire and retain, sufficient numbers of experienced operating personnel to allow the Corporation to carry on its planned fracturing business, there can be no assurance that the Corporation will not experience operational and financial problems inherent in the start up of any business including a lack of qualified personnel, delays in fracturing equipment delivery, proppant supply constraints or the ability of key proppant suppliers to satisfy proppant supply obligations and competition from established fracturing operators with greater expertise, financial resources and existing customer relationships.

Operating Risk and Insurance

The Corporation has an insurance and risk management program in place to protect its assets, operations and employees. The Corporation also has programs in place to address compliance with current safety and regulatory standards. However, the Corporation's operations are subject to risks inherent in the oilfield services industry, such as equipment defects, malfunction, failures and natural disasters. In addition, hazards such as unusual or unexpected geological formations, pressures, blow-outs, fires or other conditions may be encountered in drilling and servicing wells. Although such hazards are primarily the responsibility of the oil and natural gas companies which contract with the Corporation, these risks and hazards could expose the Corporation to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages.

Although the Corporation has obtained insurance against certain of the risks to which it is exposed which it considers adequate and customary in the oilfield services industry, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Corporation is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Corporation's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Corporation were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Corporation were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Equipment and Technology Risks

The ability of the Corporation to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment. There can be no assurance that the Corporation will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Corporation to do so could have a material adverse effect on the Corporation. No assurances can be given that competitors will not achieve technological advantages over the Corporation.

The Corporation has not sought or obtained patent or other similar protection in respect of any tools, equipment or technology it has developed independently. In the future, the Corporation may seek patents or other similar protections in respect of particular tools, equipment and technology; however, the Corporation may not be successful in such efforts. Competitors may also develop similar tools, equipment and technology to those of the Corporation thereby adversely affecting the Corporation's competitive advantage in one or more of its businesses. Additionally, there can be no assurance that certain tools, equipment or technology developed by the Corporation may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on the business, results of operations and financial condition of the Corporation.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Access to Additional Financing

The Corporation may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Corporation when needed or on terms acceptable to the Corporation. The Corporation's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Corporation's growth and may have a material adverse effect upon the Corporation.

Conflicts of Interest

Certain of the directors and officers of the Corporation are also directors and officers of other oil and natural gas exploration and/or production entities and oil and natural gas services companies, and conflicts of interest may arise between their duties as officers and directors of the Corporation and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under, the ABCA.

Legal Proceedings

The Corporation is involved in litigation from time to time in the ordinary course of business. Although the Corporation is not currently a party to any material legal proceedings, legal proceedings could be filed against the Corporation in the future. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a material adverse effect on the Corporation.

Dilution and Future Sales of Common Shares

The Corporation may issue additional Common Shares in the future, which may dilute a Shareholder's holdings in the Corporation. The Corporation's articles permit the issuance of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series, and Shareholders will have no pre-emptive rights in

connection with such further issuances. The directors of the Corporation have the discretion to determine the provisions attaching to any series of preferred shares and the price and the terms of issue of further issuances of Common Shares.

Failure to Realize Anticipated Benefits of Acquisitions

The Corporation makes acquisitions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions, retaining key employees and customer relationships and integrating operations and procedures in a timely and efficient manner. Such integration may require substantial management effort, time and resources, may divert management's focus from other strategic opportunities and operational matters and ultimately the Corporation may fail to realize anticipated benefits of acquisitions.

Government Regulation

The Corporation's operations are subject to a variety of Canadian and United States federal, provincial, state and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in the Corporation's operations. Management believes that the Corporation is in compliance with such laws, regulations and guidelines. The Corporation has invested financial and managerial resources to ensure compliance with applicable laws, regulations and guidelines and will continue to do so in the future. Although such expenditures have not, historically, been material to the Corporation, such laws, regulations and guidelines are subject to change. Accordingly, it is impossible for the Corporation to predict the cost or impact of such laws, regulations or guidelines on its future operations. It is not expected that any changes to these laws, regulations or guidelines would affect the operations of the Corporation in a manner materially different than they would affect other oil and natural gas service companies of a similar size.

Environmental Liability

The Corporation is subject to various environmental laws and regulations enacted in the jurisdictions in which it operates which govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in the Corporation's operations. The Corporation has established procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that the Corporation's procedures will prevent environmental damage occurring from spills of materials handled by the Corporation or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. The Corporation may have the benefit of insurance maintained by it or the operator; however the Corporation may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

The Corporation's customers are subject to similar environmental laws and regulations, as well as limits on emissions to the air and discharges into surface and sub-surface waters. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, the Corporation cannot predict the nature of the restrictions that may be imposed. The Corporation may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

Targets to Reduce Emissions

Any initiatives by Canada or the Provinces in which the Corporation operates to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases" (including the ratification by the Government of Canada of the Kyoto Protocol, any emission reduction requirements which may be established under Alberta's *Climate Change and Emissions Management Act* or the recent announcement of the Government of British Columbia to introduce and implement a "carbon tax") may require the reduction of emissions or emissions intensity from the oil and natural gas industry. This may result in increased operating costs and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Corporation's

services. Management is unable to predict the impact of these initiatives on the Corporation and it is possible that they will adversely affect the Corporation's business, financial condition, results of operations and cash flows.

Outlook

Activity levels for natural gas directed services in the WCSB are difficult to predict. Uncertainty continues to exist regarding the price for natural gas and the effect of the Alberta Royalty Review on activity levels in the WCSB. While natural gas prices have strengthened since the beginning of the year, it is not known whether the increased prices are sustainable. Consequently, the increased natural gas prices have not yet resulted in any appreciable increases in the exploration and development budgets of natural gas producers. While activity levels in the WCSB are expected to remain relatively low for 2008, the Corporation will continue to focus on maximizing equipment utilization in its Canadian operations and to increase its exposure to services related to oil directed activities. In addition, the Corporation will continue to review opportunities to transfer equipment from its Canadian operations to its US Operations.

Management believes that the cost structure of the Corporation's Canadian Operations has been addressed, resulting in expected cost savings of approximately \$2.5 million annually. The increased cash flow resulting from such cost savings and available credit facilities provide the Corporation with sufficient financial resources to endure prolonged decreased activity levels in the WCSB. The Corporation's lender has recently agreed to the extension of the Corporation's \$60 million revolving facility to June 30, 2009 evidencing the lender's confidence in the Corporation's current and future financial position.

Management remains confident in the Corporation's US operations. Activity levels in the US Rocky Mountain region have not declined in the same manner as experienced in the WCSB. The US Production Testing division continues to deliver strong financial results from its operations. Two additional production testing units were transferred from the Canadian Production Testing division to the US Production Testing Division in the 2008 first quarter to meet customer needs. Management will consider transferring additional Canadian production testing units to the US if customer demand in the US Rocky Mountain region warrants.

Management expects that the US Fracturing division will deliver higher utilization and improved financial results during 2008 with the commencement of services under the contracts and commitments awarded to the Corporation. The Corporation has stockpiled sand reserves to allow it to meet its commitments for the 2008 first and second quarters and expects the recommencement of fracturing sand deliveries from its primary sand supplier during the 2008 second quarter. The Corporation has also established relationships with, and received deliveries from, other suppliers of fracturing sand.

Summary of Quarterly Results

(\$ millions, except per share amounts, unaudited)	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 31.0	\$ 31.5	\$ 16.5	\$ 46.1	\$ 34.9	\$ 35.4	\$ 22.9	\$ 42.1
Net income / (loss)	1.1	0.9	(9.3)	3.8	2.8	3.3	(0.2)	7.2
Earnings / (loss) per share								
Basic	\$ 0.07	\$ 0.05	\$ (0.58)	\$ 0.24	\$ 0.17	\$ 0.21	\$ (0.02)	\$ 0.49
Diluted	\$ 0.07	\$ 0.05	\$ (0.58)	\$ 0.24	\$ 0.17	\$ 0.20	\$ (0.02)	\$ 0.47

Q4 2007

- The quarter reflects weak financial results largely attributable to: weak Canadian industry activity resulting in considerably lower Canadian Completion Services and Drilling Services financial results; the US Fracturing division's operating loss; the goodwill impairment of \$1.2 million; and a significant contingent loss relating to an overtime claim in US Completion Services.
- The Corporation also recorded a \$1.6 million future tax recovery relating to the Canadian government's substantively enacted corporate income tax rate reductions.
- The quarter also reflects positive operating results including: fracturing service contract and commitment awards that are expected to significantly increase the Fracturing division's equipment utilization; the execution of a revised sand supply agreement and receipt of US\$4.9 million relating to repayment of the note receivable and reimbursement of certain operating expenses; increased equipment utilization and solid financial results for the US Production Testing division; improved financial results in the US Logging & Perforating division; and a strong financial contribution by the CCS Specialty Logging group in a weak operating market.

Q3 2007

- Weak industry activity levels continued in the WCSB resulting in a significant reduction in revenue and operating results for Canadian Completion Services and Drilling Services.
- US Completion Services' Production Testing division produced another quarterly record for revenue and income before income taxes.
- US Completion Services' Fracturing division's financial results continue to be hampered by fracturing sand supply.
- Sale of rig 1 for proceeds of \$5 million. The proceeds have been used to commence the construction of rig eleven.
- One-time severance and termination costs of \$0.7 million were recorded during the quarter.

Q2 2007

- Weak industry activity levels continued in the WCSB resulting in a significant reduction in revenue and operating results for Canadian Completion Services and Drilling Services.
- US Completion Services' Production Testing division produced another record quarterly revenue and income before income taxes during the quarter.
- US Completion Services' Fracturing division's financial results continue to be hampered by fracturing sand supply.
- Corporate segment recorded an allowance for loan impairment increasing the net loss by \$4.2 million as a result of the deterioration in the credit quality of the Corporation's fracturing sand supplier.

Q1 2007

- Weaker industry activity levels continued in the WCSB resulting in a reduction in revenue and operating results for Canadian Completion Services and Drilling Services.
- Drilling Services' Motorworks Rentals division substantially increased revenue due to strong equipment utilization during the quarter combined with significant growth in rental equipment capacity and its fully operational service facility.
- Drilling Services' Quintera Drilling division added rig 10, a deeper double rig, to its rig fleet.
- US Completions Services' Production Testing division produced record quarterly revenue and income before income taxes during the quarter.
- US Completion Services' Fracturing division completed 23 jobs during the quarter and received delivery of its second fracturing spread. Fracturing sand delivery delays resulted in an operating loss during the quarter.

Q4 2006

- Weaker industry activity levels continued in the WCSB resulting in a reduction in revenue and operating results for the Canadian Completion Services and Drilling Services segments.
- The US Fracturing division commenced operations in December 2006 with one fracturing spread.
- Drilling Services' Motorworks Rental division substantially increased revenue due to the significant growth in rental equipment and the opening of its service facility.
- The Canadian Completion Services segment added one mini-logger to its Logging and Perforating division and five production testing units to its Production Testing division.
- The US Completion Services segment added one production testing unit to its Production Testing division.
- The Drilling Services segment added rig 9, a deeper double rig, to its rig fleet and 21 mud motors to its drilling rental fleet.

Q3 2006

- Weaker industry activity levels, particularly in the shallow gas directed regions, were experienced in the WCSB during the quarter as a result of lower natural gas prices, reducing revenue and operating results for the Canadian Completion Services and Drilling Services segments.
- Weak operating results were experienced in the US Completion Services segment as the Production Testing division's operating results improved relative to the second quarter levels, but remained below management's expectations and the Logging and Perforating division recorded an operating loss.
- The Canadian Completion Services segment added one mini-logger to its Logging and Perforating division and three production testing units to its Production Testing division.
- The US Completion Services segment added three production testing units to its Production Testing division.
- The Drilling Services segment adds rig 8, a single rig, to its rig fleet and 2 mud motors to its drilling rental fleet.

Q2 2006

- The results for the quarter reflected the impact of spring break-up, which historically hampers activity in the Canadian Completion Services and Drilling Services segments.
- Weak operating results were experienced in the US Completion Services segment as the Production Testing division's operating results were reduced due to additional costs related to the recruitment and training of staff and an operating loss recorded by the Logging and Perforating division.
- The Canadian Completion Services segment added one production testing unit to its Production Testing division.
- The US Logging and Perforating division commenced operations with two electric line wireline units.
- The Drilling Services segment added 12 mud motors to its drilling rental fleet.

Q1 2006

- New corporate quarterly highs for revenue, EBITDA, net income and earnings per share were established, exceeding the previous record set during Q4 2005.
- Strong industry activity levels in the WCSB resulted in strong equipment utilization for an expanded equipment fleet and combined with a favourable pricing environment resulting in record financial results for the Canadian Completion Services and Drilling Services segments.
- Good utilization for an expanded US Production Testing equipment fleet resulted in improved US Completion Services financial results.
- The US Completion Services segment added two production testing units to its Production Testing division.
- The Drilling Services segment added rig 7, a single rig, to its rig fleet and 13 mud motors to its drilling rental fleet.

Non-GAAP Disclosure

EBITDA does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. The following is a reconciliation of EBITDA, as used in this MD&A, to net income, being the most directly comparable measure calculated in accordance with GAAP.

(\$ millions, except per share amounts)	Three Months ended		Year ended December 31,		
	December 31,		2007		
	2007	2006	2007	2006	2005
	(unaudited)	(unaudited)			
EBITDA	3.6	\$6.3	6.7	\$27.7	\$ 23.8
Deduct:					
Depreciation and amortization	3.4	2.3	12.6	8.5	5.7
Interest expense	0.8	0.4	2.4	0.9	1.4
Income taxes ⁽¹⁾	(1.7)	0.8	(4.8)	5.3	5.8
Net income (loss) (GAAP financial measure)	1.1	2.8	(3.5)	13.0	10.9

(1) Income taxes consist of current income taxes and future income taxes.

Forward-Looking Statements

Certain statements in this MD&A may constitute "forward-looking information" which involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this MD&A, such information uses such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate" and other similar terminology. This information reflects the Corporation's current expectations regarding future events and operating performance and speaks only as of the date of this MD&A. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed below. Although the forward-looking information contained in this MD&A is based upon what management of the Corporation believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with this forward-looking information. This forward-looking information is provided as of the date of this MD&A, and, subject to applicable securities laws, the Corporation assumes no obligation to update or revise such information to reflect new events or circumstances.

In particular, this MD&A contains forward-looking information pertaining to the following: capital expenditure programs; financing of the Corporation's activities including capital expenditures, supply and demand for oilfield services and industry activity levels, commodity prices, dependence on suppliers, dependence on personnel, collection of accounts receivable, expectations regarding market prices and costs, expansion of services in Canada and the United States and competitive conditions.

The Corporation's actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada and the United States; demand for oilfield services during drilling and completion of oil and natural gas wells; volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competition; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; changes in legislation and the regulatory environment, including uncertainties with respect to implementing the Kyoto Protocol; and the other factors considered under "Business Risks".

AR91



PURE ENERGY SERVICES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2007 AND 2006



KPMG LLP
Chartered Accountants
2700 205 - 5th Avenue SW
Calgary AB T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Pure Energy Services Ltd. as at December 31, 2007 and 2006 and the consolidated statements of income (loss) and retained earnings, comprehensive income (loss) and accumulated other comprehensive loss, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 18, 2008

PURE ENERGY SERVICES LTD.

Consolidated Balance Sheets

As at December 31,

(Stated in thousands of dollars)

	2007	2006
Assets		
Current assets		
Cash	\$ 2,043	\$ 2,357
Accounts receivable	22,176	31,153
Inventory	2,915	1,339
Income taxes recoverable	-	736
Deposits and prepaid expenses	1,514	1,175
Current portion of note receivable (Note 4)	-	2,331
	28,648	39,091
Note receivable (Note 4)	-	4,662
Property and equipment (Note 5)	162,291	144,467
Intangible assets (Note 6)	2,315	3,156
Goodwill (Note 7)	-	1,230
	\$ 193,254	\$ 192,606
Liabilities and Shareholders' Equity		
Current liabilities		
Operating loan (Note 8)	\$ 1,568	\$ 16,210
Accounts payable and accrued liabilities	13,539	13,055
Income taxes payable	274	-
Current portion of long-term debt (Note 9)	333	521
	15,714	29,786
Long term debt (Note 9)	40,500	13,146
Future income taxes (Note 10)	6,973	12,531
Shareholders' equity		
Share capital (Note 11)	106,002	106,002
Contributed surplus (Note 11(e))	2,853	1,585
Accumulated other comprehensive loss	(4,098)	-
Retained earnings	25,310	29,556
	21,212	29,556
	130,067	137,143
Commitments and contingency (Note 13)		
Subsequent events (Notes 9, 11c, 11d, 13)		
	\$ 193,254	\$ 192,606

Approved by the Board:

Signed "J. Kevin Delaney"
Director

Signed "J. C. Smith"
Director

See accompanying notes to the consolidated financial statements.

PURE ENERGY SERVICES LTD.

Consolidated Statements of Income (Loss) and Retained Earnings

For the years ended December 31,

(Stated in thousands of dollars, except per share amounts)

	2007	2006
Revenue	\$ 125,086	\$ 135,355
Expenses		
Operating	97,119	91,136
Selling, general and administrative	21,549	17,100
Depreciation and amortization	12,581	8,449
Interest on long-term debt	1,913	685
Other interest	534	211
Foreign exchange loss (gain)	38	(239)
Other income	(112)	(206)
	133,622	117,136
Gain on sale of equipment	(2,135)	(131)
Goodwill impairment	1,230	-
Note receivable impairment	736	-
Income (loss) before income taxes	(8,367)	18,350
Income taxes (Note 10)		
Current expense (recovery)	903	(522)
Future expense (reduction)	(5,741)	5,826
	(4,838)	5,304
Net income (loss)	(3,529)	13,046
Retained earnings, beginning of year	29,556	16,510
Adjustment relating to fair value accounting of financial instrument	(717)	-
Retained earnings, end of year	\$ 25,310	\$ 29,556
Earnings (loss) per share (Note 12)		
Basic	\$ (0.22)	\$ 0.84
Diluted	\$ (0.22)	\$ 0.81

See accompanying notes to the consolidated financial statements.

PURE ENERGY SERVICES LTD.

Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss

For the years ended December 31,

(Stated in thousands of dollars, except per share amounts)

	2007	2006
Net income (loss)	\$ (3,529)	\$ 13,046
Other comprehensive loss, net of tax:		
Unrealized loss on translating financial statements of self-sustaining foreign operations	(4,339)	-
Other comprehensive loss for the year	(4,339)	-
Comprehensive income (loss) for the year	\$ (7,868)	\$ 13,046

	2007	2006
Accumulated other comprehensive loss on translation of foreign operations		
Balance, beginning of year	\$ -	\$ -
Impact of translating financial statements of self-sustaining foreign operations on January 1, 2007	241	-
Unrealized loss on translation of foreign operations during the year	(4,339)	-
Balance, end of year	\$ (4,098)	\$ -

See accompanying notes to the consolidated financial statements.

PURE ENERGY SERVICES LTD.

Consolidated Statements of Cash Flows

For the years ended December 31,

(Stated in thousands of dollars)

	2007	2006
Cash provided by (used in)		
Operating activities		
Net income (loss)	\$ (3,529)	\$ 13,046
Items not involving cash:		
Depreciation and amortization	12,581	8,449
Future income tax expense (reduction)	(5,741)	5,826
Goodwill impairment (Note 7)	1,230	-
Note receivable impairment	736	-
Interest income on note receivable (Note 3(b))	(112)	-
Stock-based compensation expense	1,268	1,171
Gain on sale of equipment	(2,135)	(131)
Unrealized foreign exchange loss (gain)	24	(277)
	4,322	28,084
Changes in non-cash working capital balances (Note 17)	11,544	(5,189)
	15,866	22,895
Investing activities		
Purchases of property and equipment	(35,840)	(66,603)
Note receivable	5,098	(6,697)
Intangible assets	-	(2,356)
Proceeds from the sale of equipment	6,286	677
Changes in non-cash working capital balances (Note 17)	(3,562)	2,732
	(28,018)	(72,247)
Financing activities		
Operating loan	(14,643)	16,210
Issuance of long-term debt	27,500	9,000
Repayment of long-term debt	(333)	(21,631)
Issue of share capital, net of issue costs	-	46,431
	12,524	50,010
Increase in cash	372	658
Effect of translation on foreign currency cash and cash equivalents	(686)	-
Cash, beginning of year	2,357	1,699
Cash, end of year	\$ 2,043	\$ 2,357

Supplemental information (Note 17)

See accompanying notes to the consolidated financial statements.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

1. Nature of operations

Pure Energy Services Ltd. (the "Corporation") is incorporated under the Business Corporations Act (Alberta) and provides completion and drilling related oilfield services to oil and gas exploration and development entities in the Western Canadian Sedimentary Basin and the US Rocky Mountain region.

The ability to move heavy equipment in oil and gas fields in Canada is dependent on weather conditions, whereby thawing in the spring renders many secondary roads incapable of supporting heavy equipment until the ground is dry. In addition, locations in more northern regions of Canada are accessible only in winter months where the ground is frozen enough to support the equipment. As a result of this seasonality, the Corporation's activity is traditionally higher in the first and fourth quarters of the year than in the second and third quarters.

2. Significant accounting policies

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements:

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries and partnership from their respective dates of acquisition or incorporation. All intercompany balances and transactions have been eliminated on consolidation in accordance with Canadian generally accepted accounting principles.

(b) Inventory

Inventory consists of fracturing sand, parts and operating supplies. Fracturing sand inventory is carried at the lower of cost, determined under the first-in, first-out method and net realizable value. Parts and operating supply inventory is stated at the lower of cost, on a specifically identified basis, and net realizable value.

(c) Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated after providing for estimated salvage values at a rate which is expected to depreciate the cost of the asset over its estimated useful life. The methods and rates applied are:

Assets	Method	Rate
Buildings	declining balance	6%
Drilling rig equipment	unit of production	based on 3,650 operating days
Drilling rental equipment	straight-line	10 years
Completion services equipment	straight-line	7 to 10 years
Furniture and fixtures	declining balance	20% to 30%
Automotive equipment	declining balance	30%
Leasehold improvements	straight-line	5 years

Completion services equipment, drilling rig equipment and drilling rental equipment is depreciated to an expected residual value of 20% of the original cost.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued)

(c) Property and equipment (continued)

Management bases the estimate of the useful life and salvage value of property and equipment on expected utilization, technological change and effectiveness of maintenance programs. Although management believes the estimated useful lives of the Corporation's property and equipment are reasonable, it is possible that changes in estimates could occur which may affect the expected useful lives.

(d) Intangible assets

Intangible assets are recorded at cost. Amortization is provided using the methods and rates indicated below based on the assets' estimated useful lives as follows:

Assets	Method	Rate
Customer relationships	straight-line	10 years
Non-competition agreement	straight-line	3 years
Trade name	straight-line	10 years
Pre-operating expenditures	straight-line	5 years

(e) Goodwill

Goodwill represents the excess of the purchase price for business acquisitions over the fair value of the net assets acquired. Goodwill is allocated as of the date of the business acquisition to the Corporation's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized, but is tested for impairment at least annually. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and performance of the second step of the impairment test is unnecessary. The second step compares the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of the impairment loss, if any. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess.

(f) Income taxes

Income taxes are calculated using the asset and liability method of accounting. Under the asset and liability method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply when the asset is realized or the liability settled. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income in the period that substantive enactment or actual enactment occurs. The computation of the provision for income taxes involves tax interpretations, regulations and legislation that are continually changing.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued)

(g) Stock-based compensation plan

The Corporation has an equity incentive plan which is described in Note 11(c). The fair value of common share purchase options is calculated at the date of the grant using the Black-Scholes option pricing model and that value is recorded as compensation expense on a straight-line basis over the grant's vesting period with an offsetting credit to contributed surplus. Upon exercise of the common share purchase option, the associated amount is reclassified from contributed surplus to share capital. Consideration paid by employees upon exercise of equity purchase options is credited to share capital.

(h) Revenue recognition

The Corporation recognizes revenue at the time the product is provided or service is performed on a daily, hourly or job basis. Revenue is not recognized before there is persuasive evidence that an arrangement exists, delivery has occurred or the service has been provided, the rate is fixed and determinable, and the collection of outstanding amounts is considered probable. The Corporation considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. Contract terms do not include a provision for post-service obligations.

(i) Long-lived assets

Long-lived assets, which include property and equipment and intangible assets, are tested for impairment annually, or more frequently as circumstances require. Indications of impairment include items such as an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Corporation tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value. There were no indications of impairment during fiscal 2007 and 2006.

(j) Foreign currency translation

The Corporation's United States subsidiary is considered financially and operationally independent from the Corporation and is therefore classified as a self-sustaining foreign operation for which the current rate method is used to translate its financial statements. Under this method, net assets are translated at year-end rates and income and expense accounts are translated at average exchange rates. Adjustments resulting from these translations are reflected in other comprehensive income.

(k) Per share amounts

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the year. Under the treasury stock method, diluted per share amounts are calculated based on the weighted average number of shares issued and outstanding during the year, adjusted by the total of the additional common shares that would have been issued assuming exercise of all stock options with exercise prices at or below the average market price for the year, offset by the reduction in common shares that would be re-purchased with the exercise proceeds.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

2. Significant accounting policies (continued)

(l) Use of estimates

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

(m) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

3. Changes in accounting policies

- (a) Since the Corporation's foreign operations in the United States have matured to the extent that they no longer require day to day financial assistance, they have been re-designated from integrated to self-sustaining operations. As a result, the Corporation has prospectively changed to the current rate method of foreign currency translation from the temporal method for consolidating its US operations. The exchange gain or loss attributable to current rate translation of non-monetary and monetary items as of the date of the change has been included as part of accumulated other comprehensive income (loss), a separate component of shareholders' equity.
- (b) On January 1, 2007, the Corporation adopted new Canadian accounting standards for financial instruments and other comprehensive income. Prior periods have not been restated.

Financial instruments

The new standards require that the note receivable be measured at fair value using the effective interest method with any adjustment of the previous carrying amount recognized as an adjustment of the opening balance of retained earnings at the beginning of the fiscal year in which the standard is initially adopted. Future gains or losses are recognized when the asset is derecognized. On January 1, 2007, the note receivable was accounted for at its fair value and the carrying value was reduced by \$717. The resulting loss of \$717 was charged to opening retained earnings. During the year ended December 31, 2007, the Corporation recorded interest income of \$112 (2006 - \$nil) which is included in other expense (income) on the Consolidated Statement of Income (Loss).

Other comprehensive income (loss)

The new standards require that the Corporation present a Consolidated Statement of Comprehensive Income (Loss), which is comprised of net income (loss) and the unrealized foreign exchange gain or loss for the period related to the net investment in foreign operations.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

3. Changes in accounting policies (continued)

(c) Recent accounting pronouncements:

Inventories

A new standard was issued in June 2007 and is effective for the Corporation on January 1, 2008. The new standard supersedes *Section 3030* and provides significantly more guidance on the measurement and disclosure of inventory. The measurement changes include: the elimination of LIFO, the requirement to measure inventories at the lower of cost and net realizable value, the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosure of inventories has also been enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed.

Accounting Changes

The new standard, issued in July 2006 and effective for the Corporation on January 1, 2008, revised current standards on changes in accounting policy, estimates or errors. An entity is permitted to change an accounting policy only when it results in financial statements that provide reliable and more relevant information or results from a requirement under a primary source of Canadian GAAP. The guidance also addresses how to account for a change in accounting policy, estimate or correction of errors, and establishes enhanced disclosures about their effects on the financial statements.

Financial Instruments – Disclosure and Presentation

Both standards, issued in December 2006 and effective for the Corporation on January 1, 2008, revise the current standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3863 also establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

Capital Disclosures

The standard, issued in December 2006 and effective for the Corporation on January 1, 2008, establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed including enhanced disclosure requirements with respect to the objectives, policies and processes for managing capital.

The Corporation is currently assessing the impact these recent accounting pronouncements will have on its consolidated financial statements.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

4. Note receivable

During 2006, the Corporation advanced US\$6,000 on a secured, non-interest bearing basis to a US sand supplier ("the borrower") pursuant to the terms of an agreement.

During the 2007 second quarter, the borrower defaulted on two provisions of the agreement. These defaults and other factors indicated a deterioration in the credit quality of the borrower and, as a result, the Corporation recorded an allowance for loan impairment of \$4,247, reducing the carrying amount of the note receivable to \$1,066.

During the 2007 fourth quarter, the Corporation entered into a revised agreement and received payment of US\$4,937 in satisfaction of the loan owing by the borrower and as reimbursement of certain expenses incurred by the Corporation. As a result of this payment, the Corporation reduced the allowance for loan impairment by \$3,511 and the carrying amount of the note receivable has been reduced to nil.

	2007	2006
Note receivable (US\$6,000)	\$ -	\$ 6,993
Less: current portion	-	(2,331)
	\$ -	\$ 4,662

5. Property and equipment

2007	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 2,283	\$ -	\$ 2,283
Buildings	6,586	1,092	5,494
Drilling Services equipment	49,106	2,650	46,456
Completion Services equipment	121,529	22,097	99,432
Furniture and fixtures	6,924	3,323	3,601
Automotive	4,379	2,325	2,054
Leasehold improvements	443	187	256
Assets under construction	2,715	-	2,715
	\$ 193,965	\$ 31,674	\$ 162,291

2006	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,403	\$ -	\$ 1,403
Buildings	6,670	847	5,823
Drilling Services equipment	39,478	1,729	37,749
Completion Services equipment	86,857	13,612	73,245
Furniture and fixtures	5,271	2,345	2,926
Automotive	3,700	1,580	2,120
Leasehold improvements	436	92	344
Assets under construction	20,857	-	20,857
	\$ 164,672	\$ 20,205	\$ 144,467

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

5. Property and equipment (continued)

As at December 31, 2007, the Corporation has obligations totaling approximately \$8,127 (2006 - \$19,563) relating to the construction of property and equipment.

Subsequent to year end, the Board of Directors of the Corporation approved additional capital expenditures of \$4,000.

6. Intangible assets

2007	Cost	Accumulated Amortization	Net Book Value
Customer lists	\$ 850	\$ 207	\$ 643
Non-competition agreement	161	143	18
Trade name	134	36	98
Pre-operating expenditures	2,067	511	1,556
	\$ 3,212	\$ 897	\$ 2,315

2006	Cost	Accumulated Amortization	Net Book Value
Customer lists	\$ 850	\$ 122	\$ 728
Non-competition agreement	161	89	72
Trade name	134	23	111
Pre-operating expenditures	2,356	111	2,245
	\$ 3,501	\$ 345	\$ 3,156

The pre-operating expenditures relate to the start-up of new businesses and were recorded at cost, net of incidental revenues. These expenditures have been deferred and will be amortized over a period of five years upon commencement of commercial operations of the related business venture. The Corporation began amortization of the pre-operating expenditures relating to the Logging and Perforating division and Fracturing division in the United States during June 2006 and December 2006, respectively, as commercial operations had commenced.

The customer lists, non-competition agreement and trade name were acquired as part of business acquisitions completed during fiscal 2005.

7. Goodwill

An impairment test was performed on goodwill at December 31, 2007. The results of the test indicated that the carrying amount of the goodwill exceeded its fair value. Accordingly, an impairment loss of the full carrying value of \$1,230 was recognized.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

8. Operating loan

The Corporation has access to a \$20,000 revolving demand operating loan. Advances are available at either the bank's prime rate plus 0.5% or subject to availability at the bank's Bankers' Acceptance rate plus 1.75%, or in combination thereof. US dollar advances are available with interest at the bank's US base rate plus 0.5% per annum. The loan is secured by a general security agreement.

9. Long term debt

The Corporation has a \$60,000 extendible revolving term loan facility and a \$5,000 non-revolving term loan facility. Advances under the extendible revolving term loan facility are available at one of the bank's prime rate plus 0.5%, or subject to availability, either at the bank's Bankers' Acceptance rate plus 1.75% or the bank's fixed rate, or in combination thereof. The extendible revolving facility is extendible annually at the bank's option. The current extension date of this facility is June 30, 2008. Should this facility not be extended, outstanding amounts will be repayable monthly over a four-year term. The loan is secured by a general security agreement.

The non-revolving term loan facility has been advanced at the bank's prime rate plus 0.75% and is repayable monthly over fifteen years. The loan is secured by mortgages covering all of the Corporation's real property.

	2007	2006
Extendible revolving term loan facility	\$ 36,500	\$ 9,000
Non-revolving term loan facility	4,333	4,667
Less current portion	(333)	(521)
	\$ 40,500	\$ 13,146

Required principal repayments for long term debt are as follows:

Year ended December 31,	
2008	\$ 333
2009	4,896
2010	9,458
2011	9,458
2012	9,458
Thereafter	7,230

During the year, the Corporation amended its loan agreement increasing the extendible revolving term loan facility from \$50,000 to \$60,000 under the same terms and conditions as the existing facility, except the extension date of the facility is June 30, 2008.

Subsequent to year end, the Corporation received confirmation from its Lender revising the extendible revolving term loan facility's extension date to June 30, 2009.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

10. Income taxes

Income tax expense differs from the amount that would be computed by applying the effective federal and provincial statutory income tax rates of 32.26% (2006 – 32.8%) to income before income taxes and is reconciled as follows:

Years ended December 31,	2007	2006
Expected income tax expense	\$ (2,699)	\$ 6,024
Non-deductible expenses	554	182
Stock-based compensation	409	384
Non-taxable portion of capital gains	(308)	(17)
Reduction of future income tax balances due to income tax rate changes	(2,115)	(1,353)
Income tax in higher rate jurisdictions	(426)	48
Other	(253)	36
Provision for income taxes	\$ (4,838)	\$ 5,304

The income tax effect of temporary differences that give rise to significant portions of the future income tax assets and liabilities are presented below:

	2007	2006
Future income tax liabilities		
Property and equipment	\$ 13,186	\$ 9,696
Operations of a partnership with a different tax year	1,175	8,592
Future income tax assets		
Non-capital losses	(298)	(2,260)
Deferred expenditures	(5,788)	(1,838)
Share issue costs	(1,119)	(1,591)
Intangible assets	(183)	(68)
	\$ 6,973	\$ 12,531

The Corporation has non-capital losses that can be used to reduce future taxable income in Canada of \$690 (2006 - \$7,007). These losses expire in 2026. The Corporation has non-capital losses that can be used to reduce future taxable income in the United States of \$261 (2006 - \$nil). These losses expire in 2027.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

11. Share capital

(a) Authorized

An unlimited number of common shares

(b) Issued

	Number of Shares (000's)	Amount
Balance, December 31, 2005	12,689	\$ 58,554
Initial public offering	3,125	50,000
Exercise of options		
cash consideration received	33	213
reclassified from contributed surplus	-	13
Issuance costs, net of future income tax benefits of \$1,423	-	(2,778)
Balance, December 31, 2007 and 2006	15,847	\$ 106,002

On February 6, 2006, the Corporation completed its initial public offering (the "IPO") of shares and commenced trading on the Toronto Stock Exchange. The IPO consisted of the issuance of 3,125,000 common shares at \$16 per share for gross proceeds of \$50,000.

(c) Stock options

The Corporation has reserved 1,585,000 common shares as at December 31, 2007 and 2006 for issuance under a stock option plan for officers, directors, employees, and service providers of the Corporation. The maximum number of shares reserved for issuance under the stock option plan or any other stock option or share purchase plan or other securities based compensation arrangements of the Corporation shall not exceed 10% of the total number of outstanding common shares.

Options to purchase common shares may be granted by the Board of Directors to directors, officers, employees, and service providers of the Corporation. With the exception of one option grant, the options vest one third on each of the first, second, and third anniversary dates of the grant date on a cumulative basis and have a maximum term of five to ten years.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

11. Share capital (continued)

(c) Stock options (continued)

The Corporation calculates the fair value of its options using the Black-Scholes option pricing model. The following weighted average assumptions were used to determine the fair value of options on the date of grant:

	2007	2006
Risk free interest rate	4.14%	4.41%
Expected life	5 years	5 years
Maximum life	5 to 10 years	5 to 10 years
Vesting period	3 years	3 years
Expected dividend	\$nil per share	\$nil per share
Expected share price volatility	40.75%	19.66%
Pre-vesting employee exit rate	7.38%	3.36%

The average fair value of options granted in 2007 was determined to be \$2.99 per option (2006 - \$6.77) using the Black-Scholes option pricing model. The compensation cost to the Corporation for the years ending December 31, 2007 and 2006 was \$1,268 and \$1,171, respectively.

A summary of the status of the Corporation's stock option plan as at December 31, 2007 and 2006 and changes during the years then ended is presented below:

	Options	Weighted average exercise price	Options	Weighted average exercise price
	(000's)		(000's)	
Outstanding at the beginning of the year	1,491	\$ 11.07	1,216	\$ 8.46
Granted	81	7.59	348	20.07
Exercised	-	-	(33)	6.45
Forfeited	(131)	12.52	(40)	13.88
Outstanding at the end of the year	1,441	\$ 8.79	1,491	\$ 11.07
Exercisable at the end of the year	901	\$ 7.88	467	\$ 7.95

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

11. Share capital (continued)

(c) Stock options (continued)

The following table summarizes information about stock options outstanding at December 31, 2007:

Options Outstanding					Options Exercisable		
Range of exercise prices		Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price	
		(000's)			(000's)		
\$4.35	To \$4.86	35	4.8	\$ 4.42	-	\$ -	
\$6.00	to \$9.00	1,231	6.8	7.46	846	7.15	
\$11.87	to \$12.60	55	4.5	12.16	15	11.93	
\$20.40	to \$23.75	120	3.4	22.09	40	22.09	
						\$	
\$4.35	to \$23.75	1,441	6.4	\$ 8.79	901	7.90	

On December 31, 2007, the Corporation re-priced 552,000 options to \$8.00. An additional expense was recorded in the amount of \$82. The option re-price was approved by the Board of Directors. Subsequent to December 31, 2007, 165,000 options were cancelled and 17,000 options were forfeited.

During fiscal 2005, options to acquire 50,000 common shares at an exercise price of \$nil were granted by the Corporation to an officer in connection with his offer of employment. The Corporation has reserved 50,000 common shares for issuance pursuant to these options. Although these options were not granted pursuant to the stock option plan, they have terms that are generally consistent with options granted under such plan, except that they vest one half on each of the first and second anniversary dates of the grant date on a cumulative basis and have a maximum term of ten years. As at December 31, 2007, the average remaining life of these options was 7.4 years and all 50,000 of the options were exercisable. Subsequent to December 31, 2007, the officer exercised all of these options.

(d) Escrow shares

As at December 31, 2007, the Corporation has 524,000 shares (2006 – 2,110,000) held in escrow that will be released over a period of time ranging from 180 days to three years from the date of closing of the initial public offering. Subsequent to December 31, 2007, 155,000 shares were released from escrow.

(e) Contributed surplus

	2007	2006
Balance, beginning of year	\$ 1,585	\$ 427
Stock-based compensation expense	1,268	1,171
Reclassified to common shares upon the exercise of options	-	(13)
Balance, end of year	\$ 2,853	\$ 1,585

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

12. Per share amounts

	2007	2006
Net income (loss) available to common shareholders	\$ (3,529)	\$ 13,046
Weighted average number of common shares	15,847	15,516
Basic earnings (loss) per share	\$ (0.22)	\$ 0.84
Net income (loss) available to common shareholders	\$ (3,529)	\$ 13,046
Weighted average number of common shares	15,847	15,516
Dilutive effect of stock options	-	584
Diluted weighted average number of common shares	15,847	16,100
Diluted earnings (loss) per share	\$ (0.22)	\$ 0.81

13. Commitments and contingencies

(a) Commitments:

The Corporation is committed to payments under its Sand Supply Agreement, and various operating leases for office and warehouse facilities, office equipment, computers and automobiles. Annual minimum payments required subsequent to 2007 are as follows:

Years ended December 31,	
2008	\$ 9,364
2009	9,664
2010	9,484
2011	4,435
2012	323
Thereafter	308

(b) Contingencies:

The Corporation, through the performance of its services, is sometimes named as a defendant in litigation. The nature of these claims is usually related to personal injury or completed operations. The Corporation maintains a level of insurance coverage deemed appropriate by management and for matters for which insurance coverage can be maintained. The Corporation has no outstanding claims which would have a material adverse effect on the Corporation as a whole.

The Corporation's wholly-owned subsidiary, Pure Energy Services (USA), Inc. ("Pure USA") has been named in a lawsuit commenced by former employees claiming damages. A liability has been recorded in the financial statements based on management's reasonable estimate of the contingent liability as at December 31, 2007. Exposure to a loss in excess of the liability recorded exists, but is not determinable at this time.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

14. Related party transactions

- (a) During fiscal 2007, the Corporation incurred and paid legal fees of \$nil (2006 - \$127) to an officer and former director. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.
- (b) The Corporation has entered into a seven year operating lease, expiring May 2012, with a company controlled by a member of senior management of the Corporation. Monthly lease payments are \$11. This transaction is in the normal course of operations and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. Financial instruments

- (a) Fair value of financial instruments

The carrying values of accounts receivable, deposits and prepaid expenses, operating loan and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. All loans with variable interest rates are considered by management to approximate fair value.

- (b) Credit risk

A substantial portion of the accounts receivable are with customers who are dependent upon the oil and gas industry, and are subject to normal industry credit risks. Sales to ten customers during fiscal 2007 amounted to approximately 50% (2006 - 50%) of total revenue.

- (c) Interest rate risk

The Corporation manages its exposure to interest rate risk through a combination of fixed and variable rate borrowing facilities that are available if required. As at December 31, 2007, all of its borrowings were at variable rates.

- (d) Exchange rate risk

The Corporation is exposed to exchange rate risk resulting from its assets and liabilities denominated in foreign currencies. Exchange gains or losses resulting from fluctuations in foreign exchange rates are charged to net income in the period that they occur. Management does not use any derivative instruments to hedge this risk.

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

16. Segmented information

The Corporation operates in two main industry segments which operate in two geographic areas. The segments are Completion Services and Drilling Services and provide the following services to oil and gas exploration and production companies:

- Completion Services provides logging and perforating, production testing, multi-line, fracturing and pressure transient analysis services which are performed on new and producing oil and gas wells; and
- Drilling Services provides contract drilling services and equipment rentals.

The segmented amounts are as follows:

Year ended December 31, 2007	Completion Services	Drilling Services	Corporate	Total
Revenue	\$ 101,179	\$ 23,907	\$ -	\$ 125,086
Income (loss) before income taxes	(2,414)	3,703	(9,656)	(8,367)
Depreciation and amortization	11,155	1,426	-	12,581
Capital expenditures *	26,084	8,642	1,114	35,840
Total assets	141,494	49,717	2,043	193,254
Goodwill	-	-	-	-

Year ended December 31, 2006	Completion Services	Drilling Services	Corporate	Total
Revenue	\$ 102,847	\$ 32,508	\$ -	\$ 135,355
Income (loss) before income taxes	14,540	10,122	(6,312)	18,350
Depreciation and amortization	7,160	1,289	-	8,449
Capital expenditures *	42,101	23,214	1,288	66,603
Total assets	128,824	53,696	10,086	192,606
Goodwill	745	485	-	1,230

* Does not include property and equipment acquired on business acquisitions.

The Corporation operates in the following geographic locations:

Year ended December 31, 2007	Canada	United States	Total
Revenue	\$ 85,008	\$ 40,078	\$ 125,086
Loss before income taxes	(6,926)	(1,441)	(8,367)
Property and equipment	93,493	68,798	162,291
Goodwill	-	-	-

Year ended December 31, 2006	Canada	United States	Total
Revenue	\$ 112,819	\$ 22,536	\$ 135,355
Income (loss) before income taxes	18,387	(37)	18,350
Property and equipment	94,271	50,196	144,467
Goodwill	1,230	-	1,230

PURE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2007 and 2006

(Stated in thousands of dollars, except per share amounts)

17. Supplemental cash flow information

	2007	2006
Interest paid	\$ 2,450	\$ 826
Income taxes paid (recovered)	-	(113)
Components of change in non-cash working capital balances:		
Accounts receivable	8,298	(589)
Inventory	(1,732)	(853)
Income taxes payable/recoverable	903	(408)
Prepaid expenses and deposits	(446)	(395)
Accounts payable and accrued liabilities	959	(212)
	7,982	(2,457)
Change in non-cash working capital on investing activities:	(3,562)	2,732
Change in non-cash working capital on operating activities:	\$ 11,544	\$ (5,189)

